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## BEFORE THE ARIZONA CORPORATION COMMISSION

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In the matter of the Commission's investigation to address energy efficiency/demand side management ("EE/DSM"), cost effectiveness of EE/DSM as currently administered, EE/DSM cost recovery methodologies (including the Energy Efficiency Resource Plan proposed in the Tucson Electric Power Company rate case Settlement Agreement, Decision No. 73912), need or not for EE/DSM performance incentives, EE/DSM as part of the Commission's Integrated Resource Plan process, and possible modification of current EE/DSM and Integrated Resource Plan rules.

DOCKET NO. E-00000XX-13-0214

**Comments of Arizona Community Action Association**

Arizona Corporation Commission

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The Arizona Community Action Association (ACAA) greatly appreciates the opportunity to comment on the proposed energy efficiency and IRP rule changes. ACAA is a 501c3 nonprofit dedicated to advocating, educating, and partnering to prevent and alleviate poverty. Through a collaboration of nearly 300 organizations and individuals in Arizona, ACAA develops and implements strategies to address and ultimately eliminate poverty.

ACAA promotes economic self-sufficiency by working with Community Action Agencies statewide to move disadvantaged and limited-income individuals and families out of poverty. Our members' services include: case management, asset development and emergency assistance for food, utilities, rent and eviction prevention, emergency shelter coordination, financial assistance, resources, referrals, and employment. ACAA work with over thirty nonprofit, faith-based, and government institutions to provide bill assistance for utilities across Arizona, administers weatherization programs for Arizona Public Service and Salt River Project, and provides advocacy and technical assistance to the Weatherization Network across Arizona.

ACAA is deeply concerned with the struggles facing limited-income populations in Arizona. Even though we are past the worst part of the economic crisis, many limited-income communities haven't gotten solid footing in the post-Recession economy. Research performed for the Arizona Town Hall found that 46 percent of all Arizona households are one step away from falling into abject poverty.<sup>1</sup> The

<sup>1</sup> Morrison, R. M. "Who are Arizona's vulnerable populations?" 16 June 2014. Available Online: <http://morrisoninstitute.asu.edu/news/who-are-arizonas-vulnerable-populations>

ratio of job-seekers to available jobs has decreased from its peak in 2010, but it is still above 2:1, meaning that half of the people who are willing and able to work are unable to find employment.<sup>2</sup> More distressing is that this ratio doesn't account for "missing workers" who do not have a job and have stopped looking for work, either as a result of discouragement or otherwise being unable to continue their search. Needless to say, there is much more work to be done before Arizona achieves a thriving economy again.<sup>3</sup> Indeed, since 2007 the employment-to-population ratio has decreased by 3.4% in Arizona, and current projections indicate that we won't reach 2007 levels of employment until 2018.<sup>4</sup> One in six Arizonans receives SNAP benefits,<sup>5</sup> and the number of emergency food boxes distributed has increased from 2005 to 2010.<sup>6</sup>

There is a silver lining: assistance programs have lifted 39 million people out of poverty, including 8 million children. This had the effect of cutting poverty in half.<sup>7</sup> Two examples of such programs funded through utilities' Demand Side Management budgets are weatherization and bill assistance.

Bill assistance provides financial assistance to customers who aren't able to pay their utility bill, easing the strain on the budgets of struggling families. Bill assistance programs also help utilities by reducing the costs of collection, eliminating bad debt, and reducing the risk of accidents due to utility shutoff (a fire from candles when the electricity is turned off, carbon monoxide poisoning from a fire to keep warm when gas service is terminated, etc.). Bill assistance has been shown to improve the health of children in limited-income families, leading to healthier weights and less frequent hospitalization.<sup>8</sup> In the presence of large temperature swings, limited-income families spend less on food and clothing to cope with spikes in energy costs.<sup>9</sup> Thirty-two percent of households receiving energy assistance that include an older person report going without medical or dental care as a result of high home energy bills in the past five years.<sup>10</sup>

Weatherization serves limited-income customers by improving home insulation, repairing or replacing appliances, repairing or replacing duct systems, making health or safety upgrades, and providing other general repairs or improvements as needed. Weatherization can reduce customers'

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<sup>2</sup> Gould, E. "Job Seekers Outnumber Jobs by 2-to-1" 7 October 2014. **The Economic Policy Institute**. Available Online: <http://www.epi.org/blog/job-seekers-outnumber-jobs-2-1/>

<sup>3</sup> "Missing Workers: The Missing Part of the Unemployment Story." 7 November 2014. **The Economic Policy Institute**. Available Online: <http://www.epi.org/publication/missing-workers/>

<sup>4</sup> EPI Analysis of Current Population Survey microdata, 2007Q3–2014Q3, <http://www.epi.org/blog/jobs-growth-far-from-strong-it-will-be-2018-before-the-economy-looks-like-2007/>

<sup>5</sup> Department of Economic Security. "Annual Report State Fiscal Year 2012." Available Online: [https://www.azdes.gov/InternetFiles/Reports/pdf/des\\_annual\\_report\\_2012.pdf](https://www.azdes.gov/InternetFiles/Reports/pdf/des_annual_report_2012.pdf)

<sup>6</sup> "Total Emergency Food Boxes Distributed in Arizona." **Arizona Indicators: Food Banks**. Available Online: <http://arizonaindicators.org/human-services/food-banks>

<sup>7</sup> "Safety Net Cut Poverty Nearly in Half Last Year, New Census Data Show." **Center on Budget and Policy Priorities**. Available Online: <http://www.cbpp.org/research/index.cfm?fa=topic&id=36>

<sup>8</sup> "Energy Insecurity is a Major Threat to Child Health." **Children's Healthwatch**. Available Online: [http://www.childrenshealthwatch.org/upload/resource/energy\\_brief\\_feb10.pdf](http://www.childrenshealthwatch.org/upload/resource/energy_brief_feb10.pdf)

<sup>9</sup> Bhattacharya J., DeLeire T., Haider S., Currie J. "Heat or eat? Cold-weather shocks and nutrition in poor American families." *American Journal of Public Health*, 2003 Jul;93(7):1149-54. Available Online: <http://www.ncbi.nlm.nih.gov/pubmed/12835201>

<sup>10</sup> Snyder, L. P., Baker, C. A. "Affordable Home Energy and Health: Making the Connections." **AARP Research Report**. Available Online: [http://neada.org/wp-content/uploads/2013/02/aarp\\_neada\\_report\\_affordable\\_home\\_energy\\_and\\_health\\_june\\_2010.pdf](http://neada.org/wp-content/uploads/2013/02/aarp_neada_report_affordable_home_energy_and_health_june_2010.pdf)

energy bills by a third, saving \$400 per year on average.<sup>11</sup> The implications are striking: weatherization customers report having a much easier time paying their energy bills, the number of households who are disconnected after weatherization decreases by half, and the number of customers who were able to pay their full bill increases substantially.<sup>12</sup> More than 880,000 households are eligible for weatherization in Arizona; significant opportunities to save energy and money through this program remain untapped.<sup>13</sup>

All of this is to say that assistance programs offered because of the Energy Efficiency Standard are absolutely crucial to the well-being of Arizona's limited-income and vulnerable populations and for helping Arizona bounce back from the recession. The proposed rule change would seriously jeopardize the existence of these programs, and as such ACAA strongly opposes the proposed changes and ardently supports the current Energy Efficiency Standard.

The first concern ACAA has is that it appears bill assistance currently provided in utilities' DSM programs would be completely eliminated under the proposed changes. Currently, APS and Southwest Gas SWG provide bill assistance through their Energy Efficiency Implementation budgets. These plans are vital to the utilities' vulnerable customers: in the past 3 years, SWG's Low-Income Energy Conservation bill assistance has helped 3,367 households and APS' Bill Assistance has helped 5,111 households.<sup>14</sup> Under the proposed plan, the Energy Efficiency Goal is set through a Resource Planning Process, which would largely ignore rate design, and with it bill assistance.

Furthermore, the proposed cost recovery mechanism appears to preclude any bill assistance funding. Section R14-2-2410(I) states:

"To treat DSM similar to a typical generation resource, an investor-owned affected utility shall invest in Commission-approved DSM programs. ... [A]n affected utility will be allowed to defer and capitalize its DSM expenditures and amortize them into rates over time, earning the same rate of return on the deferred balance as for any other capital asset."

With this change in cost recovery, it seems that SWG and APS could no longer fund their bill assistance programs. Without these programs, vulnerable customers would be without electricity or gas service, straining family budgets to the point of breaking. Protecting limited-income customers is not only in the public interest, it is a stated objective of the Energy Efficiency Standard. Moving forward with the modified cost recovery mechanism appears to conflict with the objectives of the rules.

If the proposal moves forward, the Energy Efficiency Goal could be altered or eliminated every two years,<sup>15</sup> which would have significant negative impacts on the weatherization program. The Energy Efficiency Standard sets a long-range goal, which creates business certainty and lowers administrative costs. Altering the energy efficiency target every two years would make it hard to train staff and maintain the high-quality building science professionals currently employed in the weatherization program. Such uncertainty would likely decrease the impact of the program. Moreover, the biennial IRP is presently ill-

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<sup>11</sup>Eisenberg, J. F. (March 2010). Weatherization Assistance Program Technical Memorandum Background Data and Statistics. Oak Ridge National Laboratory. Available Online: <http://weatherization.ornl.gov/pdfs/ORNLTM-2010-66.pdf>

<sup>12</sup>Tonn B. "Making Sense of Non-Energy Benefits: Results from the Weatherization Assistance Program" Available Online: [http://www.iea.org/media/workshops/2013/energyproviders/Session1\\_4\\_Tonn\\_CanadaIEANEBs.pdf](http://www.iea.org/media/workshops/2013/energyproviders/Session1_4_Tonn_CanadaIEANEBs.pdf)

<sup>13</sup>Poverty and Housing Data, 2008-2012 American Community Survey 5-Year Estimates

<sup>14</sup>Program Documents of SWG LIEC and APS Bill Assistance. APS assistance includes the bill assistance funded by the DSM and through the Crisis 200 program.

<sup>15</sup>Arizona Administrative Code R14-2-2404(A), R14-2-2405(D)

equipped to set a standard for energy efficiency and weatherization. The IRP is merely acknowledged by the Commission as per R14-2-704. The limits of Resource Planning were on display recently with the Ocotillo Modernization Project,<sup>16</sup> a project not included in the 2012 IRP.<sup>17</sup> Setting a voluntary energy efficiency target through this process would add even more uncertainty to a proposal that sets a solid program on shaky footing.

**Programs should not automatically be cut if they are determined not cost-effective.** R14-2-2410(C) states that a utility shall terminate a program or measure if it “is not cost-effective or otherwise does not meet expectations.” This line appears to contradict a clause later in that same subsection; “the affected utility shall... include in its annual DSM progress report... details of why the program or measure was modified or terminated.” If a measurement or calculation should find that weatherization is not cost-effective, it would cause severe and significant hardship for limited-income communities. Time and again the benefits of weatherization have been well-documented.<sup>18</sup> If some periodic analysis were to show weatherization to be less than cost-effective, ceasing the program would be unwise and premature. Instead, the program administrators should be given the opportunity to collaborate with the ACC and other stakeholders to address any issues that may have arisen in the program. Furthermore, weatherization is the only energy efficiency program available to limited-income populations; if it were found to be not cost-effective and summarily terminated, it would violate R14-2-2403(C)(2), stating that affected utilities shall “[a]llocate a portion of DSM resources specifically to limited-income customers.” If utilities are required to terminate a program that they judge to be cost-ineffective, it may have the result of negating one of the stated Goals and Objectives of the current standard and proposed target. Also, leaving weatherization contractors in a state of such precarity would severely hamper their ability to conduct business and improve customers’ homes.

**The Ratepayer Impact Measure Test is Inappropriate for Weatherization; the Societal Cost Test is More Appropriate.** As a measure of energy efficiency, the Ratepayer Impact Measure (RIM) test has some fundamental issues, especially if it’s to be used as a primary test. The California Standard Practice Manual warns that RIM test results are “less certain than those of other tests.”<sup>19</sup> The RIM test, if applied as a threshold, could eliminate a program that creates large savings for participants if it resulted in minimal costs to non-participants.<sup>20</sup> This could happen even if a program is zero cost.<sup>21</sup> Additionally, the RIM test would not lead to lower costs to customers or to society.<sup>22</sup> Furthermore, Efficiency measures with a RIM value below 1.0 can represent the least-cost resource for a utility, depending on the time period and long-term fixed costs included in the avoided costs. In fact, in the vast majority of cases, the RIM is less than one. The RIM test counts lost utility revenue as a “cost” and avoided costs as a “benefit”. Since the retail rate is typically higher than the utility’s avoided cost, the RIM test will almost always fail programs and measures as a matter of design.<sup>23</sup> To illustrate the inappropriateness of this test: if a weatherization crew went into a house and tore out its insulation, thereby increasing electricity sales,

<sup>16</sup> Docket No. L-00000D-14-0292-00169

<sup>17</sup> 2012 Integrated Resource Plan Workshop. Arizona Public Service. Available Online: <http://www.aps.com/library/resource%20alt/APSACCPresentationAug2012.pdf>

<sup>18</sup> Schweitzer, M. (September 2005). “ESTIMATING THE NATIONAL EFFECTS OF THE U.S. DEPARTMENT OF ENERGY’S WEATHERIZATION ASSISTANCE PROGRAM WITH STATE-LEVEL DATA: A META-EVALUATION USING STUDIES FROM 1993 TO 2005.” Oak Ridge National Laboratory. Available Online: [http://weatherization.ornl.gov/pdfs/ORNL\\_CON-493.pdf](http://weatherization.ornl.gov/pdfs/ORNL_CON-493.pdf)

<sup>19</sup> “California Standard Practice Manual: Economic Analysis of Demand-Side Programs and Projects.” Available Online: [http://www.cpuc.ca.gov/NR/rdonlyres/004ABF9D-027C-4BE1-9AE1-CE56ADF8DADC/0/CPUC\\_STANDARD\\_PRACTICE\\_MANUAL.pdf](http://www.cpuc.ca.gov/NR/rdonlyres/004ABF9D-027C-4BE1-9AE1-CE56ADF8DADC/0/CPUC_STANDARD_PRACTICE_MANUAL.pdf)

<sup>20</sup> Lebaron, R. (January 2012). “Measure it Right: Best Practices in the Selection and Implementation of Cost-Effectiveness Tests.” National Home Performance Council. Available Online: [http://www.nhpci.org/publications/NHPC\\_White-paper-Measure-it-Right\\_201206.pdf](http://www.nhpci.org/publications/NHPC_White-paper-Measure-it-Right_201206.pdf)

<sup>21</sup> Wayne Shirley (2008) “Benefit Cost Tests for Energy Efficiency,” Regulatory Assistance Project.

<sup>22</sup> Woolf, T., et al. (2012) “Energy Efficiency Cost-Effectiveness Screening: How to Properly Account for ‘Other Program Impacts’ and Environmental Compliance Costs.” Regulatory Assistance Project.

<sup>23</sup> “Understanding Cost-Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers.” (November 2008). A RESOURCE OF THE NATIONAL ACTION PLAN FOR ENERGY EFFICIENCY. Available Online: <http://www.epa.gov/cleanenergy/documents/suca/cost-effectiveness.pdf>

that would be a cost effective measure under the RIM test. R14-2-2411(B) should be edited to remove the "Ratepayer Impact Measure Test" from the list of tests that shall be used to determine cost-effectiveness.

The Utility Cost Test (UCT) is an improvement to the RIM test by not counting decreased utility revenue as a program cost. However, the UCT fails to consider the societal benefits of programs like weatherization. Of the five tests commonly used to measure energy efficiency cost-effectiveness, only the Societal Cost Test allows for the consideration of environmental and other non-energy benefits and costs to society into the calculation. Efficiency programs often provide the benefits of increased community health and improved aesthetics while also reducing reliance on imported energy sources. It would be unwise not to consider these impacts when evaluating the cost-effectiveness of energy efficiency. In the case of weatherization, the societal benefits can be substantial. Previous studies have shown that weatherization's non-energy benefits, such as increased health and safety, affordable housing, and economic development result in greater value than the direct energy savings from weatherization.<sup>24</sup> A proper cost-benefit analysis of weatherization must include these non-energy benefits provided by the program, which is why the Societal Cost Test is the appropriate test with which to analyze weatherization.

More time is needed to fully understand the implications of this proposed rule change. A number of the issues identified in this analysis were not discussed in any of the special open meetings held on this topic in March and April of 2014. At the very least, I respectfully request that response comments be solicited, with adequate time to consider these preliminary comments and to draft an appropriate response.

Energy Efficiency is a least-cost resource, it's a hedge against fuel volatility, and it encourages investment in Arizona rather than sending millions of dollars out of state to import fuels. Weatherization and bill assistance have averted thousands of crises in this state and provided much-needed economic security to a very vulnerable population. The current Energy Efficiency Standard has paid real dividends to Arizona; please continue to do what's best for Arizona and its limited-income population by maintaining the Energy Efficiency Standard.

Respectfully submitted this 18<sup>th</sup> day of November, 2014.



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Arizona Community Action Association

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<sup>24</sup> Schweitzer, M., Tonn, B. (April 2002). "NONENERGY BENEFITS FROM THE WEATHERIZATION ASSISTANCE PROGRAM: A SUMMARY OF FINDINGS FROM THE RECENT LITERATURE." Available Online: <http://weatherization.ornl.gov/pdfs/ORNLCN-484.pdf>